



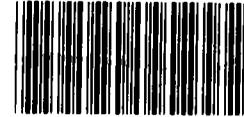
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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HUMAN RESOURCES
DIVISION

SEPTEMBER 27, 1984

B-213605



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The Honorable Margaret M. Heckler
The Secretary of Health and Human Services

Dear Madam Secretary:

Subject: The Office of Human Development Services'
Coordinated Discretionary Program
(GAO/HRD-84-89)

We have completed a limited survey of the Office of Human Development Services' (OHDS') Coordinated Discretionary Program (CDP). The survey was undertaken as a congressional request after questions were raised in the press regarding CDP's operation. Concern was expressed about whether OHDS had the authority to pool funds appropriated for several individual programs-- Head Start, Runaway and Homeless Youth, Older Americans, Native Americans, Child Abuse Prevention, and Child Welfare Services-- for use in CDP and to what extent the combining of funds inhibited determining from which program specific amounts of money were drawn. We also investigated allegations of possible improprieties regarding the use of Head Start funds for a specific grant and the OHDS Assistant Secretary's involvement in grants awarded to a former employer.

In summary, we found that

- OHDS' management of CDP did not inhibit determining from which program specific amounts of money were drawn;
- OHDS' initial use of Head Start funds for the grant in question does not appear improper; and
- the Assistant Secretary's actions in grants awarded to a former employer give the appearance of a lack of impartiality.

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BACKGROUND

OHDS includes four administrations:

- The Administration on Aging.
- The Administration for Children, Youth, and Families.
- The Administration on Developmental Disabilities.
- The Administration for Native Americans.

Through these administrations OHDS administers a wide range of human services programs for the elderly, children and their families, persons with developmental disabilities, and Native Americans. Among the programs that OHDS administers are discretionary grant programs to support research, demonstration, evaluation, and training projects.

In fiscal year 1982, OHDS established CDP to coordinate discretionary grants managed by the four administrations under nine programs--Older Americans, Head Start, Runaway and Homeless Youth,¹ Child Welfare Services, Child Abuse Prevention, Native Americans, Adoption Opportunities, Developmental Disabilities, and section 1110 of the Social Security Act authorizing social services research and demonstration projects. Total CDP expenditures reported by OHDS for all programs for fiscal years 1982 and 1983 were \$23.4 million and \$26.1 million, respectively.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted our review between October 1983 and June 1984 at HHS and OHDS in Washington, D.C. As agreed with the requesters, we limited our survey to six programs:

- Head Start.
- Runaway and Homeless Youth.
- Older Americans.
- Native Americans.

¹OHDS added the Runaway and Homeless Youth Program to CDP in fiscal year 1983.

--Child Abuse Prevention.

--Child Welfare Services.

Because the allegations generally dealt with the preaward and award processes, we limited our survey to fiscal year 1983 new awards. We neither verified grantees' receipt or usage of grant funds nor determined what use OHDS made of any final product.

To evaluate OHDS' management of grants awarded through CDP, we reviewed appropriate legislation, HHS' regulations, and OHDS' program guidelines; interviewed HHS and OHDS officials representing various offices and programs; and reviewed records of grant award decisions and expenditures. For the programs we reviewed, OHDS reported \$14.4 million representing 179 new awards in fiscal year 1983. We traced this amount to specific program accounts.

We investigated two specific allegations: (1) improper use of Head Start funds and (2) the Assistant Secretary's involvement in grants awarded to her former employer. We reviewed the related grant files for the affected applicants and discussed with OHDS officials the circumstances surrounding the grant awards.

We talked with an Office of Management and Budget (OMB) official to determine OMB guidance governing federal agencies' discretionary grant programs.

Our review was done in accordance with generally accepted government auditing standards.

GRANT AWARD PROCESS

New discretionary grants awarded through CDP undergo a two-stage application process--a preapplication stage and a final application stage. In the first stage, OHDS solicits preapplications by announcing in the Federal Register estimated funds available for discretionary projects and the priority areas that the project must address--priority areas are either program specific or cut across several programs.

Preapplications are screened to determine the target population(s) addressed. If the applicant addresses only one program's target population, OHDS' grant manual requires that the program in which the grant award authority is vested oversee the review of the application. If the applicant specifies more than

one program's target population, OHDS decides which program will oversee the review. Within the programs, the review process is further stratified so that preapplications addressing the same priority areas are reviewed to compete against each other.

For each priority area, the programs convene panels of at least three persons independent of the program (usually from outside the federal government) and knowledgeable in the discipline relating to the preapplication. Each panel member numerically rates each application using subjective judgment and weighted criteria published in the Federal Register. Each program prepares a summary report of the independent review results which includes, among other information, the scores for each application and an assessment of the top-rated six. Program staff also review the applications for programmatic considerations and make funding recommendations to the awarding official.

The first stage application process culminates with the Assistant Secretary and the responsible awarding officials (administration commissioners and office directors) meeting to discuss which applicants will be requested to submit final applications. Commissioners and directors are responsible for selecting those applicants that will be requested to submit final applications for their respective programs. To assist the first stage deliberations, applications reviewed within the programs are consolidated into an OHDS list and ranked by average panel score to compete within priority areas.

For the second stage of the CDP process, the final proposals undergo one of two review processes. When the preapplications are considered exemplary and a program is reasonably certain it wants to fund the project, the program can administratively review the requested final application and fund such applications without further OHDS staff consultation. When programs do not predetermine an interest in funding a project, the requested final applications are competitively reviewed using the same first stage review procedures, but substituting other weighted criteria in the rating process.

The final stage application process culminates with the Assistant Secretary and the awarding officials discussing the competitively reviewed final applications and deciding which proposals to fund. Again, as in the first stage, commissioners and directors are responsible for their programs' grant awards decisions.

CDP ACCOUNTABILITY

The extent to which OHDS combines funds does not inhibit tracing from which program specific amounts of money were drawn, even when grants are cofunded by several programs. OHDS does not consolidate as a single fund the various funds of the programs that participate in CDP, but only consolidates the decision processes used in making grant awards.

Fiscal accountability is maintained because funds remain in program accounts until obligated for grant expenditures and program funds are reported separately in grant-related documents. The funds for participating programs are combined only when grants are funded by multiple programs, and such combining occurs only in the actual grant award payment to the grantee. Before the award payment is made, program funds are identified separately in the notice of financial assistance awarded (the official award document) and the letter of award sent to the grantee.

For fiscal year 1983 new awards coordinated through CDP for the programs we reviewed, the notices of financial assistance awarded (1) authorized obligations from each program's account for its grant expenditures and (2) contained the signature(s) of the respective commissioner(s)/office director(s) as the responsible awarding official.

OHDS followed HHS' policies for reviewing new discretionary grant applications, in that it used an independent review process to score and rank the applications. However, OHDS' procedures for complying with HHS' policy for approving applications out of ranking order could be improved. Although HHS' policy allows OHDS officials to use discretion when approving applications, the policy requires documentation of reasons for funding applications out of the ranking order established by the independent review process. Our review of fiscal year 1983 decision memoranda (the official record of award decisions made during meetings of the Assistant Secretary, commissioners, and directors) showed that decisions to not award grants in ranking order were frequently documented by the word "no." For example, in 1983 for one of the priority areas, OHDS did not award 35 grants within the ranking order, but in only four cases did OHDS justify its decisions with reasons more explicit than "no." OHDS officials acknowledged that the documentation of funding decisions could be improved and said that beginning with the 1984 award process, their reasons would be more explicit.

USE OF HEAD START GRANT FUNDS

We did not substantiate the allegation that in 1982 OHDS made improper use of Head Start funds in awarding one of its grants. The grant in question was for a project that proposed innovative financing arrangements to relieve fiscal stress on local governments that provide services to the beneficiaries of many of OHDS' programs, including youths and families. According to the OHDS records, the grant was awarded in September 1982, using \$154,351 of Head Start funds in addition to \$87,487 of Social Services discretionary funds. OHDS officials told us that Head Start funds were used because of the expected benefit to the families of disadvantaged children--in particular, mothers receiving Aid to Families with Dependent Children.

OHDS' original justification for this award does not appear to be inconsistent with Head Start's statutory purpose to assist "economically disadvantaged children and their families." After the grant award, however, OHDS officials determined that the project shifted emphasis to the elderly. OHDS became aware of the shifted emphasis through a news article and, in September 1983, made a site visit which confirmed that Head Start funding was no longer appropriate. OHDS had made no prior site visits. OHDS officials told us that the grant was not terminated because the grantee met the grant requirements and was not precluded from shifting emphasis to the elderly. Consequently, OHDS did not seek recoupment of expended funds. It did, however, credit the unexpended Head Start funds of \$53,774 to the Head Start account and replaced these funds with additional Social Services discretionary funds.

GRANTS AWARDED TO THE ASSISTANT SECRETARY'S FORMER EMPLOYER

The Assistant Secretary's involvement in grant awards to a former employer was not improper, but does give the appearance of a lack of impartiality. A total of three grants were awarded in 1982 and 1983 to the Assistant Secretary's former employer. The applications for these grants underwent HHS' and OHDS' review processes, which involved competitive independent reviews by outside experts, reviews by program staff, and deliberations by staff from the Office of the Assistant Secretary. However, after the independent review results became available, the Assistant Secretary's staff prepared lists of grant applicants (including her former employer) recommended for grant awards. The Assistant Secretary approved these lists and participated in meetings where final award decisions were made. She told us, however, that she did not discuss the pros or cons of her former employer's grant applications at these meetings.

Under 5 C.F.R. 735.201a, an employee is to avoid any action that might result in or create the appearance of giving preferential treatment or a loss of impartiality. We could find no evidence in the Assistant Secretary's financial disclosure statements or through discussions with OHDS officials that she had cause to influence these grant award decisions or that these grant applications received any preferential treatment. We believe, nevertheless, that her approval of a list of eligible grantees that included her former employer, and her presence at meetings where her former employer's grant applications were selected for grant awards, give the appearance of a lack of impartiality.

We reviewed the grant files to determine the average numerical scores for these three applications. We found that (1) one of her former employer's applications scored 85.0 and ranked 3rd of 10 in its area of competition, (2) another scored 77.7 and ranked 4th of 10 in its area of competition, and (3) the third application scored 89.3 but we were unable to determine its ranking in its area of competition. In both cases in which we could determine ranking, one of the higher rated applications was not funded. We do not view this as improper, however, because HHS' grants policy allows funding decisions to deviate from the ranking order. According to the HHS grants manual, the results of the independent panel review, as indicated by the ranking of the grant application scores, are intended to guide officials in deciding which applications to approve and the order of approval--not to supplant their discretionary decision authority.

In addition to the allegation of preferential treatment for these three grants, there was also an allegation concerning the appropriateness of transferring the grants to the principal investigator when he left the original grantee organization to begin his own business. The principal investigator was a former coworker of the Assistant Secretary at the original grantee organization. In April 1983 the grantee notified OHDS that the projects' principal investigator would be leaving the grantee organization in May 1983 and requested OHDS to transfer the unexpended grant funds with him. OHDS officials told us that to maintain the continuity of grant work, they customarily transfer unexpended grant funds with the principal investigator.

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We discussed our findings with OHDS officials, and their comments were considered in the preparation of this report.

We are making no recommendations at this time but request being informed of any follow-up actions taken to assure more complete documentation of grantee selection decisions as well as any actions to avoid future appearances of staff preferential treatment or a loss of impartiality.

We are sending copies of this report to various congressional offices; the HHS Inspector General; the Assistant Secretary for OHDS; the Director, Office of Management and Budget; and other interested parties.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Richard L. Fogel". The signature is written in a cursive style with a large, sweeping initial "R".

Richard L. Fogel
Director